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financial-
compliance audit

STATE OF MONTANA
LEGISLATIVE COUNCIL

FINANCIAL-COMPLIANCE AUDIT FOR THE
TWO FISCAL YEARS ENDED JUNE 30, 1995

PERFORMED UNDER CONTRACT BY:

JAMES J. WOSEPKA
CERTIFIED PUBLIC ACCOUNTANTS

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LEGISLATIVE COUNCIL

FINANCIAL-COMPLIANCE AUDIT FOR THE
TWO FISCAL YEARS ENDED JUNE 30, 1995

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STATE OF MONTANA

Office of the Legislative Auditor



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JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

November 1995

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Legislative Council for the two fiscal years ended June 30, 1995.

The audit was conducted by James J. Wosepka, CPA, under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report is included in the back of the audit report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat".

Scott A. Seacat
Legislative Auditor

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INTRODUCTION

We performed a financial-compliance audit of the Legislative Council for the two fiscal years ended June 30, 1995. The objectives of the audit were to: (1) determine if the financial schedules present fairly the Council's results of operations in accordance with the State's accounting policies for the two fiscal years ended June 30, 1995; (2) determine if the Council complied with applicable laws and regulations; and (3) make recommendations for improvement in the management and internal controls of the Council.

We thank the staff of the Legislative Council for their cooperation and assistance during our audit.

BACKGROUND

Title 5, Chapter 5 and 11, MCA, established the Legislative Council as an eight-member council. The function of the Council is to provide legal services, bill drafting and research to the Legislative and interim Committees. The Legislative Council also enrolls, prints, and mails all bills and prepares House and Senate Journals and Session Laws for publication. The staff also provides for the recodification and indexing of Montana Statutes.

The Legislative Council consists of:

Legislative Research

Legislative Services

Management

Legal Services

Interim Studies and Conferences

Montana Codes Annotated

INTERNAL CONTROL

We have examined the financial schedules of the Legislative Council for the two fiscal years ended June 30, 1995. We issued our opinion dated September 22, 1995 on these schedules. As part of our examination, we made a study and evaluation of the Council's control system. Our study evaluated the system as required by government auditing standards for financial compliance audits. We classified the controls in the following categories:

1. Expenditures/liabilities;
2. Property, plant, and equipment;
3. Payroll; and
4. Revenue/receivables.

Our study included the control categories listed above. We applied alternative audit tests to property, plant, and equipment as we determined it was more efficient to expand substantive testing for this area. Through our study, we determined the nature, timing, and extent of our auditing procedures. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or system as a whole.

The management of the Legislative Council is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related

cost of control procedures. The objectives of a system are to provide management with reasonable assurance that: (1) assets are safeguarded against loss from unauthorized use or disposition; (2) transactions are executed in accordance with management's authorization; and (3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the Legislative Council.

A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the financial statements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

This report is intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of the document which, upon presentation to the Legislative Audit Committee, is a matter of public record

PRIOR AUDIT RECOMMENDATIONS

The Legislative Council was last audited for the fiscal years ending June 30, 1992 and 1993, under contract through the office of the Legislative Auditor. No audit recommendations were made.

CURRENT AUDIT RECOMMENDATIONS

The Property Accountability Management System (PAMS) was not properly updated. Information was not entered or deleted from the system.

RECOMMENDATION

We recommend staff be instructed on how the input and deletion forms are to be completed, and that the PAMS be updated on a timely basis.

STATE COMPLIANCE

We reviewed compliance with state laws that could have a material impact on the financial schedules of the Council. In our opinion, the Council complied with the state laws and regulations tested. Nothing came to our attention that caused us to believe untested compliance issues were not in accordance with applicable laws and regulations.

**INDEPENDENT AUDITORS' REPORT
AND SCHEDULES OF AGENCY FINANCIAL ACTIVITY**

JAMES J. WOSEPKA

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITORS' REPORT

The Legislative Audit Committee
Of the Montana State Legislature:

We have audited the financial schedules of the Office of the Legislative Council for each of the two fiscal years ended June 30, 1994 and 1995, as listed in the table of contents. These financial schedules are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial schedules, the Office's financial schedules are prepared in accordance with state accounting policy and are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the financial schedules referred to in paragraph one present fairly, in all material respects, the results of operations and changes in fund balances of the Office of the Legislative Council for each of the two fiscal years ended June 30, 1994 and 1995, in conformity with the basis of accounting described in Note 1.



Baker, Montana
September 22, 1995

LEGISLATIVE COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994 AND 1995

	<u>General Funds</u>	<u>Special Revenue Funds</u>	<u>Pension Trust Funds</u>
FUND BALANCE: July 1, 1993	\$ 0	\$ <u>134,429</u>	\$ 0
ADDITIONS			
<u>Fiscal Year 1993-94</u>			
Budgeted Revenue & Transfers In	45,588	1,344,654	
Prior Year Expenditure Adjustments	36,189	22	
Support From State of Montana	1,899,308		
Cash Transfers In		3	
Direct Entries to Fund Balance		42,135	
REDUCTIONS			
<u>Fiscal Year 1993-94</u>			
Budgeted Expenditures & Transfers Out	<u>1,981,085</u>	<u>918,704</u>	-
FUND BALANCE: June 30, 1994	\$ 0	\$ <u>602,539</u>	\$ 0
ADDITIONS			
<u>Fiscal Year 1994-95</u>			
Budgeted Revenue & Transfers In	74,932	77,866	
Prior Year Expenditure Adjustments	8,711	3,609	
Support From State of Montana	2,377,627		
REDUCTIONS			
<u>Fiscal Year 1994-95</u>			
Budgeted Expenditures & Transfers Out	2,461,270	451,462	
Prior Year Expenditures Adjustments		297	
Direct Entries to Fund Balance	_____	<u>67,940</u>	-
FUND BALANCE: June 30, 1995	\$ 0	\$ <u>164,315</u>	\$ 0

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 8-9.

LEGISLATIVE COUNCIL
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994 AND 1995

	<u>Sales of Documents, Merchandise</u>	<u>Income Collections & Transfers</u>	<u>Grants Contracts, Donations</u>	<u>Total</u>
Fiscal Year 1994-95				
Estimated Revenue	\$ 50,000			\$ 50,000
Actual Revenue	<u>74,932</u>			<u>74,932</u>
Collections Over (Under) Estimate	\$ <u>24,932</u>			\$ <u>24,932</u>
SPECIAL REVENUE FUND				
Estimated Revenue	\$ 188,980		\$ 41,855	\$ 230,835
Actual Revenue	<u>77,866</u>		<u>0</u>	<u>77,866</u>
Collections Over (Under) Estimate	\$ (<u>111,114</u>)		\$ (<u>41,855</u>)	\$ (<u>152,969</u>)
Fiscal Year 1993-94				
Estimated Revenue	\$ 5,000	\$ 25,000		\$ 30,000
Actual Revenue	<u>20,588</u>	<u>25,000</u>		<u>45,588</u>
Collections Over (Under) Estimate	\$ <u>15,588</u>	\$ <u>0</u>		\$ <u>15,588</u>
SPECIAL REVENUE FUND				
Estimated Revenue	\$ 1,100,000		\$ 47,400	\$ 1,147,400
Actual Revenue	<u>1,339,109</u>		<u>5,545</u>	<u>1,344,65</u>
Collections Over (Under) Estimate	\$ <u>239,109</u>		\$ (<u>41,855</u>)	\$ <u>197,25</u>

This schedule is prepared from the Statewide Budgeting and Accounting System
Additional information is provided in the notes to the financial schedules on
pages 8-9.

LEGISLATIVE COUNCIL
SCHEDULE OF PROGRAM EXPENDITURES BY OBJECT - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1995

	Legislature Council Feed Bill	Interim Studies & Conferences	Legislative Council	Total
PERSONAL SERVICES				
Salaries	\$ 91,744	\$ 8,502	\$ 1,239,960	\$ 1,340,20
Hourly wages			48,148	48,14
Employee Benefits	<u>8,985</u>	<u>760</u>	<u>304,360</u>	<u>314,10</u>
Total	<u>100,729</u>	<u>9,262</u>	<u>1,592,468</u>	<u>1,702,45</u>
OPERATING EXPENSES				
Other Services	260,465	7,223	254,742	522,43
Supplies & Materials	17,036	1,459	40,982	59,47
Communications	79,516	2,952	28,071	110,53
Travel		26,213	6,649	32,86
Rent	263		32,136	32,39
Repair & Maintenance			56,344	56,34
Other Expenses	<u>5,049</u>	<u>9,870</u>	<u>44,027</u>	<u>58,94</u>
Total	<u>362,329</u>	<u>47,717</u>	<u>462,951</u>	<u>872,99</u>
EQUIPMENT AND INTANGIBLE ASSETS				
Equipment	1,258		332,022	333,28
Intangible Assets			3,996	3,99
Total	<u>1,258</u>		<u>336,018</u>	<u>337,27</u>
TOTAL PROGRAM EXPENDITURES	\$ 464,316	\$ 56,979	\$ 2,391,437	\$ 2,912,73
GENERAL FUND				
Budgeted	\$ 736,381	\$ 102,578	\$ 2,158,392	\$ 2,997,35
Actual	<u>464,316</u>	<u>51,434</u>	<u>1,945,520</u>	<u>2,461,27</u>
Unspent Budget Authority	<u>\$ 272,065</u>	<u>\$ 51,144</u>	<u>\$ 212,872</u>	<u>\$ 536,08</u>
SPECIAL REVENUE FUND				
Budgeted		\$ 22,400	\$ 445,917	\$ 468,31
Actual		5,545	445,917	451,46
Unspent Budget Authority		<u>\$ 16,855</u>	<u>\$ 0</u>	<u>\$ 16,85</u>

This schedule is prepared from the Statewide Budgeting and Accounting System
Additional information is provided in the notes to the financial schedules on
pages 8-9.

LEGISLATIVE COUNCIL
SCHEDULE OF PROGRAM EXPENDITURES BY OBJECT - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1994

	Legislature Council Bill	Interim Council Feed Studies & Conferences	Legislative Council	Total
PERSONAL SERVICES				
Salaries	\$ 18,037	\$ 16,519	\$ 1,226,221	\$ 1,260,77
Hourly wages				2,619
Employee Benefits	<u>1,779</u>	<u>1,473</u>	<u>320,248</u>	<u>323,50</u>
Total	<u>19,816</u>	<u>17,992</u>	<u>1,549,088</u>	<u>1,586,89</u>
OPERATING EXPENSES				
Other Services	160,078	1,071	541,866	703,01
Supplies & Materials	2,501	1,307	21,546	25,35
Communications	23,457	3,560	34,209	61,22
Travel		51,041	14,460	65,50
Rent		10	31,536	31,54
Repair & Maintenance	613		51,235	51,84
Other Expenses	<u>7,272</u>	<u>57,919</u>	<u>78,093</u>	<u>143,28</u>
Total	<u>193,921</u>	<u>114,908</u>	<u>772,945</u>	<u>1,081,77</u>
EQUIPMENT AND INTANGIBLE ASSETS				
Equipment			195,804	195,80
Intangible Assets			<u>35,315</u>	<u>35,31</u>
Total			<u>231,119</u>	<u>231,11</u>
TOTAL PROGRAM EXPENDITURES	\$ 213,737	\$ 132,900	\$ 2,553,152	\$ 2,899,78
GENERAL FUND				
Budgeted	\$ 320,476	\$ 235,478	\$ 1,845,608	\$ 2,401,56
Actual	<u>213,737</u>	<u>132,900</u>	<u>1,634,448</u>	<u>1,981,08</u>
Unspent Budget Authority	<u>106,739</u>	<u>102,578</u>	<u>211,160</u>	<u>420,47</u>
SPECIAL REVENUE FUND				
Budgeted		\$ 22,400	\$ 918,704	\$ 941,10
Actual		<u>22,400</u>	<u>918,704</u>	<u>918,70</u>
Unspent Budget Authority		<u>22,400</u>	<u>0</u>	<u>22,40</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 8-9.

LEGISLATIVE COUNCIL

NOTES TO THE FINANCIAL SCHEDULES JUNE 30, 1994 AND 1995

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Legislative Council utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual, such basis differs from generally accepted accounting principles in the following material respects:

under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy;

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.
- Obligations for employees' vested leave and sick leave are recorded as expenditures when paid.

Basis of Presentation

The financial schedules were prepared from Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to State law. The following fund types are used by the office:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriation is required to spend from this fund.

LEGISLATIVE COUNCIL

NOTES TO THE FINANCIAL SCHEDULES (CONT.)
JUNE 30, 1994 AND 1995

Vacation and Sick Leave

Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Legislative Council. Expenditures for termination pay currently are absorbed in the annual operational costs of the Council. At June 30, 1994 and 1995, the Council had liabilities for compensated absences of \$ 169,767 and \$ 186,575, respectively.

2. PENSION PLAN

Employees are covered by Montana Public Employees' Retirement System (PERS). The Council's contributions to the plan are shown below:

Fiscal Year	Fiscal Year
1994	1995
\$ 112,389	\$ 83,589

3. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the General Fund beginning and ending fund balance will always be zero.

4. SPECIAL REVENUE FUND BALANCE

Direct entries were made to fund balance to make adjustments for the change in inventory and to transfer funds to the State's General Fund.

AGENCY RESPONSE



Senate Members

J.D. LYNCH
CHAIRMAN
AL BISHOP
ROBERT "BOB" BROWN
B.F. "CHRIS" CHRISTIAENS
BRUCE D. CRIPPEN
MIKE HALLIGAN

Executive Director
ROBERT B. PERSON

House Members

LARRY HAL GRINDE
VICE CHAIRMAN
DON LARSON
WILLIAM "RED" MENAHAN
JOHN A. MERCER
THOMAS E. NELSON
RAY PECK

Montana Legislative Council

Office of the Executive Director

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October 18, 1995

Mr. James J. Wosepka, CPA
P.O. Box 602
Baker, Montana 59313-0602

RE: Legislative Council Audit Response

Dear Mr. Wosepka:

I have reviewed the draft audit report for the Montana Legislative Council submitted to me with your request for a response. I agree with your recommendations, which will be most helpful.

It takes the dedication and cooperation of a number of people to make a good audit report possible. Particular credit goes to Amy Clark and Kevin Hayes whose day-to-day attention to the details and dedication to accounting propriety were indispensable.

Over the course of the past year, we took a risk in combining three jobs into two in an attempt to streamline our operation. Unfortunately, we found our alternate arrangement did not work out, and we got behind on our inventory work. We are currently involved in a reorganization effort underwritten by the passage of SB 671 during the 1995 session. Building a strong and capable inventory capacity is among the important goals of the reorganization effort.

It has been a pleasure working with you.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert B. Person".

Robert B. Person
Executive Director

C25 5304rpxa.

